

## Message Text

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FM AMEMBASSY QUITO

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S E C R E T QUITO 1559

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E.O. 11652: XGDS-1

TAGS: ENRG PFOR EC

SUBJECT: PETROLEUM: TEXACO LA PRODUCTION MGR'S VIEWS ON PRICE  
ISSUE AND NATIONALIZATION

REF: QUITO 1526

1. SUMMARY: TEXACO LA PRODUCTION MGR MAX CRAWFORD, WHO ARRIVED QUITO FEBRUARY 25, CALLED ON AMBASSADOR AND DCM AFTERNOON SAME DAY AT AMBASSADOR'S PREVIOUS REQUEST (SEE REFTEL). CRAWFORD SAID HE HERE TO NOSE AROUND AND REPORT BACK TO PRINCIPALS. HE SAID CURRENT GOVERNMENT TAKE COULD BE LIVED WITH BUT IS NOT SUFFICIENT FOR ADEQUATE INVESTMENT PROGRAM AND TEXACO-GULF THEREFORE PRESSURING FOR PRICE REDUCTION. CRAWFORD BELIEVES TEXACO-GULF SHOULD PRESENT LETTER SETTING FORTH CONDITIONS UNDER WHICH THEY COULD CONTINUE OPERATIONS UNDER PRESENT CONTRACT AND SETTING FORTH ALTERNATIVE OFFER TO DISCUSS NATIONALIZATION. AMBASSADOR POINTED OUT ECUADOR NOT LIKE VENEZUELA AND NATIONALIZATION WILL BE DIFFICULT PROCESS. AMBASSADOR SUGGESTED CRAWFORD CONSIDER SEEING SUPREME COUNCIL PRESIDENT POVEDA BECAUSE POVEDA MIGHT NOT BE GETTING CORRECT STORY FROM OTHERS. CRAWFORD SAID HE WOULD CALL AMBASSADOR NEXT MORNING TO SEE WHETHER HE WOULD DO THIS. END SUMMARY.

2. TEXACO'S MAX CRAWFORD CALLED ON AMBASSADOR

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AND DCM ON AFTERNOON FEBRUARY 25. CRAWFORD HAD JUST ARRIVED

QUITO SAME DAY AND HAD NOT YET TALKED WITH ECUADOREAN OFFICIALS. THE AMBASSADOR LED OFF BY STATING THAT HE BELIEVED THAT SUPREME COUNCIL MEMBER GENERAL DURAN WAS PUSHING IDEA OF NATIONALIZATION PROBABLY FOR HIS OWN POLITICAL PURPOSES. DURAN'S VIEWS ON NATIONALIZATION MAY NOT BE REPRESENTATIVE OF THE REST OF THE GOE OR EVEN OF THE "COLONELS". CRAWFORD SAID THAT HE BELIEVED THAT VARGAS AND DURAN WERE PLAYING THE SAME GAME.

3. CRAWFORD SAID THAT TEXACO COULD LIVE WITH THE PRESENT GOVERNMENT TAKE BUT THAT IT WOULD NOT PROVIDE SUFFICIENT PROFIT FOR AN INVESTMENT PROGRAM THAT WILL BE REQUIRED EVEN TO MAINTAIN THE PRESENT LEVEL OF PRODUCTION THROUGH THE END OF THIS YEAR. HE SAID THAT TEXACO IS THEREFORE PRESSURING FOR A REDUCTION IN GOVERNMENT TAKE AND, DESPITE GENERAL DURAN'S DISCLAIMERS, (SEE REFTEL) SUCH A REDUCTION IS INDEED POLITICALLY POSSIBLE.

4. CRAWFORD SAID HE WOULD GUESS THAT UNDER ANY CIRCUMSTANCES THE GOE HAS DECIDED NOT TO RAISE THE PRICE ABOVE THE PRESENT LEVEL THROUGH MID-YEAR (I.E., UNTIL NEXT OPEC MEETING). THEY COULD REDUCE IT THOUGH BY A NUMBER OF MEANS THAT WOULD NOT SHOW PUBLICLY, INCLUDING THE GOE ACKNOWLEDGEMENT OF THE NORSUL-PHOENIX PAYMENT AS A COST.

5. CRAWFORD SAID THAT ECUADOR WOULD CERTAINLY LOSE ON ANY NATIONALIZATION PROPOSITION BUT THAT IT IS NOT TEXACO'S MISSION TO BAIL THEM OUT. TEXACO WOULD PREFER TO CONTINUE OPERATING UNDER THE PRESENT CONTRACT IF ECUADOR MADE THE CONDITIONS POSSIBLE. HE BELIEVES THAT TEXACO AND GULF SHOULD PRESENT A LETTER MAKING THIS STATEMENT BUT ALSO INDICATING AND REAFFIRMING THEIR OFFER TO DISCUSS THE TERMS OF NATIONALIZATION.

6. THE AMBASSADOR STATED THAT THE CONDITIONS IN ECUADOR ARE QUITE DIFFERENT FROM THOSE IN VENEZUELA AND A NATIONALIZATION COULD BE A LONG AND MESSY PROCESS WITH TERMS AND CONDITIONS NOT NECESSARILY TO TEXACO'S LIKING. CRAWFORD AGREED THAT THIS WAS PROBABLY THE CASE. CRAWFORD STATED THAT HE DOES NOT BELIEVE THAT A COMPENSATION AGREEMENT WITH THE GOE WILL

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WORK BUT THAT SOME SORT OF THIRD PARTY FINANCING WILL BE NECESSARY. THE AMBASSADOR SAID THAT THIS WAS ONE OF THE THINGS THAT WORRIED HIM BECAUSE SUCH FINANCING COULD COME, FOR EXAMPLE, FROM RUMANIA OR OTHER COMMUNIST COUNTRY. THIS COULD WORK BECAUSE RUMANIA MIGHT BE ABLE TO ESTABLISH CUBA AS A MARKET. CRAWFORD SAID THAT THERE HAD BEEN NUMEROUS PREVIOUS REPORTS OF EAST EUROPEAN ASSISTANCE IN VARIOUS PLACES, BUT NONE OF THESE HAD EVER PANNED OUT. HE SERIOUSLY

DOUBTED THAT RUMANIA WOULD EITHER BE ABLE TO OPERATE THE INDUSTRY OR TO MARKET ECUADOREAN CRUDE EXCEPT AT A "POLITICAL" PRICE. IN ANY EVENT, IT WAS NOT HIS CONCERN.

7. CRAWFORD SAID, INCIDENTALLY, THAT VARGAS HAD INSTRUCTED THE CENTRAL BANK TO HOLD 100 PERCENT OF THE TEXACO-GULF CASH FLOW DEPOSIT, PRESUMABLY TO FORCE THE PAYMENT OF AN OLD 1972 ROYALTY BUY BACK. CRAWFORD INTENDS TO TELL VARGAS IN THAT CASE, TEXACO WILL NOT MAKE ANY DEPOSIT ON ITS EXPORTS. THIS COULD LEAD TO A CHARGE OF CONTRACT CADUCITY BUT CRAWFORD DOES NOT BELIEVE VARGAS CAN MAKE THAT CHARGE STICK.

8. THE AMBASSADOR ASKED CRAWFORD WHOM ELSE HE PLANNED TO SEE WHILE HERE. CRAWFORD WAS NOT SURE HE PLANNED TO SEE ANYONE BUT VARGAS BUT HE MIGHT SEE DURAN AS WELL. THE AMBASSADOR ASKED IF HE HAD EVER TALKED ALONE WITH ADMIRAL POVEDA. CRAWFORD SAID HE HAD NOT. THE AMBASSADOR SAID THAT POVEDA MIGHT NOT BE GETTING THE CORRECT STORIES FROM DURAN OR OTHERS AND IT MIGHT BE A GOOD IDEA FOR CRAWFORD TO SEE HIM PRIVATELY AND WITHOUT THE KNOWLEDGE OF DURAN, VARGAS, OR OTHERS. THE AMBASSADOR OFFERED TO TRY TO SET UP SUCH AN APPOINTMENT. CRAWFORD SAID THAT HE WOULD NOT GIVE AN ANSWER AT THE MOMENT BECAUSE HE MUST CONSULT WITH HIS GULF COLLEAGUES BUT THAT HE WOULD LET THE AMBASSADOR KNOW THE ANSWER FIRST THING THE NEXT DAY.  
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